HOUSING MARKET OUTLOOK

St. John's CMA

Canada Mortgage and Housing Corporation

Date Released: Spring 2009

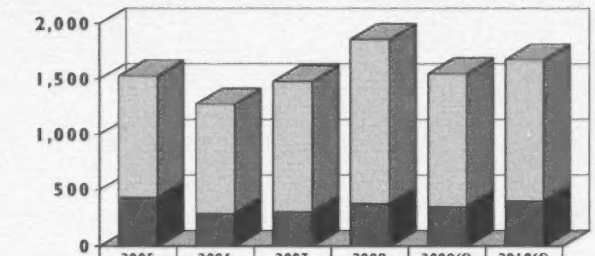
Healthy Demand for Housing

Despite global economic uncertainty, strong fundamentals, such as a buoyant local economy, continued in-migration and solid employment will support demand for housing within the St. John's region in 2009 and 2010. Accordingly, the local housing market is expected to continue to perform well. The renovation sector will build on its recent strength and garner additional stimulus from the recently announced home renovation tax credit over the forecast period. Recent mortgage rate reductions will improve homeownership costs. Some prospective buyers, however, will remain sensitive to recent price appreciation when considering the purchase of a home. In spite of higher house prices, personal income growth and a strong local labour market will continue to provide support to the overall level of demand for both new and existing homes this year and next. Positive

Figure 1

New Home Demand will Moderate

Housing Starts- St. John's Region



	2005	2006	2007	2008	2009(f)	2010(f)
Singles	1,096	985	1,174	1,485	1,200	1275
Multiples	438	290	306	378	350	400

Source and forecast: CMHC

Table of contents

1 Healthy Demand for Housing

2 Resale Market

3 New Home Market

3 Rental Market

4 Economic Trends

4 Mortgage Rates

5 Forecast Summary

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at **www.cmhc.ca/housingmarketinformation.** View print, download or subscribe to get market information e-mailed to you on the day it is released. New ! CMHC's electronic suite of national standardized products is now available for **free.**

Canada

CMHC SCHL

HOME TO CANADIANS

trends in demographic and economic fundamentals, paired with on-going momentum spurred by recent major project announcements will continue to support a healthy outlook for the St. John's area housing market.

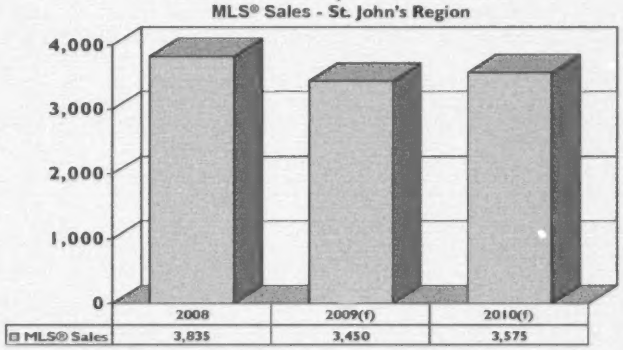
Resale Market

MLS® Sales Expected to Cool

Having posted record sales for several years in a row, the St. John's area resale market will cool moderately in terms of expected unit sales in 2009 and 2010. Accordingly, the forecast calls for MLS® sales of 3,450 units this year, down from 3,835 in 2008, with 3,575 sales expected in 2010. With many new homes selling through the MLS® system, solid residential construction activity will have a positive impact on total MLS® sales over the forecast period. Unprecedented housing market activity last year favoured sellers, as the market was characterized by higher than normal unit sales, very low inventory or active listings and a 20 per cent average price increase. However, the market has become more stable for buyers. A decline in sales has caused inventory to increase and price growth has eased somewhat. In fact, active listings are approximately 35 per cent higher so far this year compared to last year. With demand expected to remain healthy over the forecast period, unit sales will remain buoyant, but moderate slightly in 2009 and 2010 compared to recent record levels. While increasingly favourable for buyers, more balanced resale market conditions have proved challenging for some sellers, resulting in few offers on higher priced listings and offers below list price on many others. With more listings available, buyers have fared well in their search for a home and in some cases they are being swayed from the higher-priced new home market. The growing new versus existing house price premium is expected to result in increased first-time buyer activity within the lower-priced resale market.

Figure 2

MLS® Sales Expected to Cool



Source: CREA, CMHC forecast 2009, 2010
MLS® is a registered trademark of the Canadian Real Estate Association (CREA)
Note: Eastern Region (St. John's) MLS® data unavailable prior to 2008 calendar year

Resale Market Dynamics Weaken

The resale market became balanced in 2005 after three years that favoured sellers. Balanced conditions existed for less than a year, as record sales activity was offset by an increase in active listings in 2006, driving the number of listings to their highest level since 1999. As a result, the St. John's resale market was classified as buyers until mid 2007. Subsequent robust economic activity and in-migration to the St. John's region, combined with solid resale market dynamics, quickly positioned the market once again as a sellers market in early 2008. With sellers' market conditions having weakened since the peak in the third quarter of 2008, the market rapidly tracked into balanced territory by the end of last year and has continued to be more favourable to buyers since the start of 2009.

Key market indicators positioned the market as sellers a little more than a year ago. That continued throughout most of 2008 until the fourth quarter – with softness occurring in the last two months of 2008. Much of last year's strong existing home market activity was driven by optimism created by the NL Government budget surplus, the Hebron oilfield announcement and formal agreement, and other major projects, such as the Vale Inco Hydromet in Long Harbour. In light of this, buyers speculated on property values rising significantly and they did - to the tune of about 20 per cent. Tight resale market conditions brought about by unprecedented demand and a significant reduction in inventory posed a challenge for buyers, but

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

sellers were rewarded during this period. However, in terms of unit sales, the market cooled after the third quarter peak in 2008, having also remained cool in early 2009. There have been very few multiple offers or offers at or above asking price this year, inventory has increased approximately 35 per cent and listings are taking much longer to sell. Prices, however, remain quite stable. Having peaked in 2008 during the height of the sellers market, the sales-to-active listings ratio has dropped, signalling that the recent sellers market has come to an end. As a result, the local resale market is expected to remain more balanced and be slightly more favourable to buyers through to the end of 2009.

Price Growth to Ease Somewhat

With resale market dynamics more normalized, expect to see price growth continue, but ease somewhat in 2009 and 2010. Coming off the heels of 20 per cent appreciation in 2008, the average MLS® house price is forecast to end this year at $198,000, an increase of nearly six per cent over last year's $187,571 level, followed by a further three per cent gain in 2010 to $204,000. Once again, the active move-up buyer segment will result in two-storey homes experiencing the highest price growth over the forecast period. The current cost of homeownership will continue to reduce two-storey demand from the first-time buyer segment. As such, demand for bungalows with or without basement apartments, semi-detached and row housing should remain solid alternatives for this segment of the market.

New Home Market

New Home Demand will Moderate

Current economic uncertainty will result in a slowdown in growth in 2009 with improvement expected in 2010, especially for the St. John's area. Tepid job and income growth will be offset by low mortgage rates and continued in-migration, providing support to the local residential construction market. Although starts are expected to moderate this year compared to 2008's 33-year high, new home demand will continue. Demand will be driven by positive economic and demographic trends, as well as continued in-migration to the region, as a result of recent major project announcements. Relative strength in overall home buying activity will also sustain a healthy level of new home construction activity within the metro region over the forecast period. However, additional price growth, combined with higher development and construction costs, will constrain demand in the new home market. On the flip side, some buyers will continue to face difficulties in finding an existing home that meets their needs and may end up buying a newly built home instead. As demand for housing remains stable, this market reality is not expected to change significantly. Accordingly, total housing starts are expected to take a small breather this year and are forecast at 1,550 units within the St. John's region, with starts activity increasing in 2010 to 1,800 units.

Stable Multiple Starts Activity

Multiple unit construction is expected to remain stable over the forecast period, with 350 units anticipated for 2009 and 400 in 2010. With higher construction costs and longer build times, the number of single-detached homes with basement apartments will continue to slow, as buyers opt for less expensive single unit homes. Smaller households and an aging population should continue to stimulate the condo market in St. John's, with condo starts forecast to increase in the next few years. Income growth, paired with low mortgage rates, will drive first-time buyer demand for new semi-detached and row housing. Record house prices should also spur additional demand among lower income buyers for this lower-priced product in 2009 and 2010.

Rental Market

Vacancy Rate will Remain Low

Several factors will keep the vacancy rate low in 2009 and 2010. With historically high homeownership costs, the movement of renter households to homeownership will remain low. However, out-migration of the 18 to 24 year-old segment of the population will persist and once again this will put upward pressure on the vacancy rate. In fact, approximately 80 per cent of this age group tends to be renter households and they represent a key source of local tenant supply. Investment in rental housing will

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

increase the apartment supply only slightly this year and next. Accordingly, the vacancy rate for surveyed structures containing three or more units is forecast at 1.0 per cent in 2009 and 1.5 per cent in 2010. With the vacancy rate remaining low, expect monthly rents to increase to $700 this year and to $725 in 2010, as landlords attempt to recover increased costs associated with maintaining the rental stock and lower vacancies and higher energy costs exert upward pressure on rents.

Economic Trends

Local Economy

Despite the global economic situation, planning for the Hebron project and the start of the Vale Inco Hydromet project in April continues to inject stimulus into the local economy, as well as bolster the mindset of consumers. The consumer, which was a strong supporter of economic growth in 2008 through related spending on retail, auto and housing activity, is expected to be a little more cautious in 2009. Hebron project engineering and design will contribute to the overall health of the local oil sector and associated procurement opportunities will soon be available to service and supply companies. However, anticipated declines in offshore oil production will dampen GDP growth in 2009. In fact, during 2008, oil production declined 6.9 per cent over 2007 levels because of declines at White Rose and Terra Nova. Weaker offshore oil production will dampen growth over the 2009 to 2010 period, although an eventual increase in royalties received by the province from Hibernia will contribute to economic growth. Depressed commodity prices have resulted in decreased and/or suspended mineral exploration and mining extraction activity in the interior region of Newfoundland, as well as Labrador. However, a global resource recovery will add to economic growth in 2010. The fishery may benefit from recent declines in fuel costs and a lower Canadian dollar, but global demand and prices remain low for many species. Coming off the heels of real GDP growth of 7.9 per cent in 2007 for NL and additional growth of 1.8 per cent 2008, expect a 5.0 per cent decline in 2009 real GDP before rebounding 1.5 per cent in 2010.

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Forecast Summary
St. John's CMA
Spring 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	NA	NA	3,835	3,450	-10.0	3,575	3.6
MLS® Active Listings	7,292	7,416	7,520	7,000	-6.9	6,850	-2.1
MLS® Average Price ($)	139,542	149,258	187,571	198,000	5.6	204,000	3.0
New Home Market							
Starts:							
Single-Detached	985	1,174	1,485	1,200	-19.2	1,400	16.7
Multiples	290	306	378	350	-7.4	400	14.3
Starts - Total	1,275	1,480	1,863	1,550	-16.8	1,800	16.1
Average Price ($):							
Single-Detached	202,698	211,123	230,473	260,000	12.8	270,000	3.8
Median Price ($):							
Single-Detached	175,812	189,900	200,000	225,650	12.8	234,250	3.8
New Housing Price Index (% chg.)	3.7	5.0	19.6	12.5	n/a	5.0	n/a
Rental Market							
October Vacancy Rate (%)	5.1	2.6	0.8	1.0	0.2	1.5	0.5
Two-bedroom Average Rent (October) ($)	635	614	630	700	6.0	725	11.0
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	93,400	94,500	98,000	99,500	1.5	101,900	2.4
Employment Growth (%)	3.4	1.2	4.2	1.5	n/a	2.4	n/a
Unemployment rate (%)	8.1	6.9	7.8	8.0	n/a	7.5	n/a
Net Migration [1]	1,051	2,000	1,500	1,750	16.7	2,000	14.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 and 2008 migration data is forecasted

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 60 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable homes – homes that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is now available for free on CMHC's website. You can now view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1 800 668-2642.

©2007 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at mailto:chic@cmhc.gc.ca; (613) 748-2367 or 1 800 668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

STAY ON TOP OF THE HOUSING MARKET

Enhance your decision-making with the latest information on Canadian housing trends and opportunities.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis** – Future-oriented information about local, regional and national housing trends.
- **Statistics and Data** – Information on current housing market activities — starts, rents, vacancy rates and much more.

Free reports available on-line:

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports - Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase
- Rental Market Highlight Reports
- Rental Market Reports, Major Centres
- Rental Market Statistics

Free regional reports also available:

- B.C. Seniors' Housing Market Survey
- Ontario Retirement Homes Report
- The Retirement Home Market Study, Quebec Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Residential Construction Digest, Prairie Centres
- Analysis of the Resale Market, Quebec Centres

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

Client e-Update

A monthly e-newsletter that features the latest market insight, housing research and information to help housing finance professionals enhance client relationships and grow their business.

64271_2009_B01